THE CO-OPERATIVE DAIRY INDUSTRY

Background
Dairy product manufacturing in Australia has been dominated by Co-ops for about 100 years.

Co-ops were originally used in the classic role of enabling small individual producers to jointly establish simple processing plants such as creameries and butter and cheese making factories.

The mechanical cream separator was the trigger to this development and then with shipboard refrigeration available from the 1880's the dairy industry grew to serve the export market for butter and cheese.

Through the 20th century the dairy farm sector of the industry went through major changes.

- continued growth in production
- changed regional distribution with production concentrating in areas of lower production cost
- expansion for the first 60 years through establishment of new farms
- consolidation in the latter 40 years with aggregation of farms and substitution of capital and machinery for labour

The processing sector has similarly evolved in response to changes in production and markets.

- Processing plants have firstly proliferated and then consolidated. As with the farms this has been driven by the economics of transport, plant mechanisation, administration and rationalisation of production.
- A wider range of manufactures has developed with a growth in value-added products as compared to commodities.
- Increasingly the industry depends on exports but since the 1970's these are directed to Asia and the Middle East rather than to the UK.
- Export dependency exposes the industry to commodity price fluctuations beyond its own control and often politically influenced off shore.
- By world standards Australia is a low-cost dairy producer despite the lack of government support enjoyed by most competitors, except NZ.

Dairy Co-operatives Past and Present

The growth of Co-op manufacturing was originally encouraged by governments as a means of developing the dairy industry and decentralising manufacturing.

Following a Victorian Royal Commission that exposed widespread exploitation of farmers and small factories by traders and agents, co-operatives saw the need to export their own products and develop brands on the home market. Progressively these co-ops amalgamated in regions, then on a statewide basis and later with mergers across state borders.

There are now 3 large co-operative entities with turnovers in excess of $1Bn and 4 smaller ones. These co-ops are mostly registered as companies having existed before any Co-operative Act. Their structures vary, generally support co-operative ideals, but usually depart significantly from co-op principles. In the past they enjoyed significant advantages in qualifying as co-ops for taxation purposes but this is now less worthwhile.

Together the dairy co-ops dominate dairy manufacturing but have strong competition both for milk supply and in the market from proprietary businesses both Australian and foreign owned.

Co-ops have generally been the price setters for farmers' milk while competitors match their prices. Several co-ops have bought out proprietary businesses and others have been taken over by them.

Multinational food companies are attracted to our industry due to its low cost milk and their inability to establish in NZ which is solely co-op by law. Thus Nestle` are expanding here, Parmalat is looking aggressively but Kraft has reduced its presence. The low value of the $A currently makes takeovers very likely as in Australia's mining industry.

Co-operation by Co-ops

Milk suppliers are free to move from one processor to another. At present Bonlac has been losing supply to Murray Goulburn and others due to internal problems and low prices. MG cannot accept more milk unless they build more processing capacity and are looking at a $50M expansion plan in Western Victoria or SE South Australia.

Meanwhile Bonlac will have spare capacity despite acting to close several high cost sites. This will mean that the movement of milk will raise costs to both co-ops. Anyone looking at this situation from an independent standpoint would suggest that Bonlac may be asked to contract process some milk for MG as is often done by competing factories during emergencies.

Lawrie Keating! 'Pat Rowley' Bill Pyle
Joan Jane Chas Pehring
Jim Saunders

Unfortunately these co-ops serving the same farmers and industry find extreme difficulty in seeing any common interest while past personal differences and corporate rivalry combine to the ultimate cost of all milk suppliers.

What's new? For decades it has been asked why these competitors can't share some facilities even if they must retain commercial independence.

- Milk collection stands out. Many local roads have tankers from 3 companies going down them. Rationalised milk collection could save millions of dollars yearly.
- Plant duplication is rife and continuing. Hugely expensive plant, paid for by milk producers on each side, is erected close to competitors.
- Product and brand duplication is costly and irrational with discounting that erodes returns to producers.
- Competition on export markets where we could improve returns through co-operative marketing.

Be more co-operative than competitive

get above pettyness

One Big Co-op?

While commercial co-operation at operating level is so difficult to achieve is it possible to think about mergers? Logically this is just an extension of the process of amalgamation that has continued for 100 years.

In the past, regional and local loyalties have been overcome by the good commercial sense of scale when considering capital expansion, technology, market clout and a spread of products. Our present large co-ops are only large by our standards. By NZ, European and US standards these plants, turnover, and total production are small and it is these much larger operations which we have to compete with on our export markets.

If Australia is to compete effectively on the world market there must be further amalgamations and if we don't see co-ops merging then we may lose some of them to investor owned businesses.

Our co-ops are continually searching for ways to retain their co-op nature yet achieve some of the benefits that investor owned companies derive from being able to raise capital in the market. As we have seen with mutuals such as AMP and NRMA there are short term benefits in unlocking value and raising capital from the market but this could jeopardise the long term control and interests of the suppliers.

appeal individually - open letter to companies, concerned to express question to members

The Choices

Australia's dairy industry is largely co-operative. The farmers who produce the milk own the business that converts this milk to saleable product and share in the value added to it. Many of these businesses have built valuable national brands and so farmers are able to enjoy indirectly the profits from farm to retailer rather than be increasingly squeezed as commodity producers.

Comparisons with the wool, grain and meat industries show that dairy farmers have, through their co-ops, retained an interest in their product beyond the farm gate and this has served them well.

appeal to them to act together for [illegible] benefit rather than individually

personalities company + cooperative
corporate struggle
in past
investment in trans + clients; historical

Australian coop dairy

This fortunate position has been built by far sighted, courageous and responsible industry leaders for over a century. If short term difficulties of individual co-ops lead to a loss of that business to the co-op sector for ever we will have failed to uphold the vision of our early co-op pioneers. This is the time for the strong to aid the not so strong in our mutual interest. Ultimately we will need to work more closely together.

Niel Black
16 August 2000